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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Implement the Commission's Procurement Incentive Framework and to Examine the Integration of Greenhouse Gas Emissions Standards into Procurement Policies.	Rulemaking 06-04-009 (Filed April 13, 2006)

ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION
OF THE STATE OF CALIFORNIA

In the Matter of AB 32 Implementation: Greenhouse Gases.	Docket 07-OIIP-01

SACRAMENTO MUNICIPAL UTILITY DISTRICT'S COMMENTS ON TYPE AND POINT OF REGULATION ISSUES FOR THE NATURAL GAS SECTOR

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SACRAMENTO MUNICIPAL UTILITY DISTRICT'S COMMENTS ON TYPE AND POINT OF REGULATION ISSUES FOR THE NATURAL GAS SECTOR

In accordance with the California Energy Commission's (CEC) regulations and the Rules of Practice and Procedure of the California Public Utilities Commission (CPUC) the Sacramento Municipal Utility District (SMUD) provides the following comments on Type and Point of Regulation Issues for the Natural Gas Sector. SMUD does not provide natural gas to retail customers, and therefore, these comments reflect concerns about each sector bearing their fair share of the compliance burden, the issue of fuel switching, and double counting emissions from natural gas used for power generation. These comments are being provided to both the CEC and the CPUC. The comments respond to selected questions in the Administrative Law Judge's ruling requesting comments. The questions are shown in bold text, and the responses directly follow the questions.

General

Basic Design Questions: Scope of GHG Regulation

4. Should GHG emissions from the natural gas sector be capped under AB 32? Are there certain sources of emissions within the sector that should be exempt from an enforceable cap?

The natural gas sector should be accountable for the emissions from its sector except for those emissions from the combustion of natural gas for the production of electricity. (If another sector served by the natural gas sector is regulated like the electric sector, those already regulated emissions could also be removed from the natural gas sector.) The emissions associated with natural gas burned in a powerplant will be accounted for within the electric power sector and should not be counted twice. For combined heat and power and cogeneration applications only the electric energy portion of the emission should be attributed to the electric sector and the heat portion should be attributed to another sector. Similarly, since the electric sector is responsible for its "transport" emissions in the form of line losses, the gas sector should be responsible for its fugitive emissions from pipelines and compressor stations used to deliver the gas.

SMUD favors a cap over command and control measures because the cap will allow innovation. The natural gas sector cap should apply only to those emissions placed upon the natural gas sector and not counted by any other sector. The cap should have the flexibility to accommodate fuel switching from or to another sector to achieve greenhouse gas reductions. Furthermore, SMUD favors the use of a cap because SMUD wants to be certain the natural gas sector is taking responsibility for its emissions. It is

important for all sectors to take responsibility for their emissions. Caps aid in ensuring the natural gas sector will report, measure and reduce their emissions over time.

5. For each of the following sources of GHG emissions, state whether the sources described should be subject to an enforceable cap and, if so, whether the cap should be covered by a cap-and-trade approach or only by programmatic measures. For sources you recommend covering programmatically, what specific programmatic actions should be taken? For sources you recommend covering in a cap-and-trade program, are there specific programmatic measures that should be undertaken as complementary to the cap-and-trade program? For each source, discuss how your recommended approach is likely to affect rates.

a. Natural gas combustion in the residential, commercial, and small industrial segments of the natural gas sector.

b. Natural gas combustion by natural gas vehicles.

c. Combustion-related emissions from operating the infrastructure (including infrastructure related to proprietary operations) used to deliver natural gas to end users within the State.

d. Fugitive emissions, including from pipelines, storage facilities, and compressor stations.

e. Non-combustion uses of natural gas (please specify).

f. Other sources of natural gas sector emissions not listed above (please specify).

As stated in our response to number 5, SMUD believes the fugitive emissions from gas transport should be included in the gas sector cap. For those end uses that are not capped specifically in other sectors, they should be captured under the natural gas cap.

Basic Design Questions: Point of Regulation

10. If ARB chooses to individually regulate emissions from facilities in certain sectors as well as emissions from other large point sources, what level of GHG emissions should ARB use as the threshold to define large point sources? Explain your reasoning.

SMUD is concerned about consistent treatment of the electric sector and other sectors. Therefore, any cut off threshold should be equivalent to the 1 megawatt threshold used for the electric sector. Using different thresholds can in and of itself create fuel switching and other actions to avoid regulation or accountability. Thus, the cut off levels need to be roughly equivalent to the electric sector level of 1 MW.

Deferral of a Market-based Cap-and-Trade System and Coordination with Other States

Relationship to GHG Regulatory Approach in the Electricity Sector

16. For purposes of natural gas GHG regulation under AB 32, does it matter what is decided regarding electricity sector type and point of regulation? For example, would a load-based cap for the electricity sector necessitate a similar type of cap for the natural gas sector, with local distribution companies as the point of regulation? If applicable, explain the relationships you see between the electricity and natural gas sectors for AB 32 purposes.

In setting up the proposed load-based cap for the electricity sector, one advantage is that this system reduces the likelihood of leakage to unregulated sources, the other advantage that is important to consider is that the Load Serving Entity in the electric sector serves as a key decision making point in the supply of electricity services to its customers. LSE's are responsible for implementing energy efficiency, for bringing on new clean energy sources, and for organizing campaigns to change customer behavior. Further, LSE's have an interest in minimizing rate increases and cost impacts to customers. To the extent that gas distribution companies serve these same roles in the natural gas sector, these same concepts of decision making, influence, and customer cost concern would apply.

17. If the electricity sector is not included in a California (or wider) cap-and-trade system, could/should the natural gas sector be included? What are your reasons?

SMUD would like to see as many sectors and sources included in a cap-and-trade system as possible. A large cap-and-trade market is really important to create sufficient liquidity in any market. It would also allow adjustment between sectors to allow such activities as electrifying ports or when appropriate, the use of heat pumps for meeting residential heating and cooling demands. The cap-and-trade system should be allowed to find the most cost effective reductions across the entire California economy and should not be limited to the individual sectors.

18. What implications might there be for fuel switching if GHG emissions for one sector (electricity or natural gas) are capped and GHG emissions for the other sector are not? Would such fuel switching likely lead to an overall decrease, or increase, in GHG emissions?

If one sector is capped, and another sector capable of providing the same services at approximately the same price is uncapped, it is logical to assume that fuel switching may occur. It is likely that fuel switching to an uncapped sector that creates a net societal

reduction would be encouraged through the creation of emissions offsets, however fuel switching that creates a net increase would be difficult to discourage and could be a likely outcome depending on how strict the cap was on the capped sector. This type of fuel switching would undermine the integrity of emissions reductions in the capped sector. Ideally both sectors would be capped, and if fuel switching occurred, it would be done to the benefit of both sectors in reducing total emissions, rather than occurring as a way to avoid paying compliance costs.

19. How should the GHG emissions of cogeneration, combined heat and power, and distributed generation end users be considered and regulated (e.g., in the electricity sector, in the natural gas sector, or as a point source)?

As stated in the response to question 4, only the electric portion of cogeneration, combined heat and power should be attributed to the electric sector. If distributed generation provides heat to a process use, the emissions associated with the process use should be attributed to another sector as should the heat portion of a combined heat and power or cogeneration application.

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Respectfully submitted,

/s/

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